

**NORTH DAKOTA SOYBEAN COUNCIL  
Fargo, North Dakota**

**Audit Report for the Fiscal Year Ended  
June 30, 2008**

**Client Code 61100**

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**For The Fiscal Year Ended June 30, 2008**

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## INDEPENDENT AUDITOR'S REPORT

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Honorable John Hoeven, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Deborah Johnson, Executive Director  
North Dakota Soybean Council

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota Soybean Council as of and for the year ended June 30, 2008, which collectively comprise the North Dakota Soybean Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota Soybean Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the North Dakota Soybean Council are intended to present the financial position, and the changes in financial position, of only that portion of the governmental activities and governmental funds of the state of North Dakota that is attributable to the transactions of the North Dakota Soybean Council. They do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the North Dakota Soybean Council as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2008 on our consideration of the North Dakota Soybean Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robert R. Peterson  
State Auditor

August 19, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Honorable John Hoeven, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Deborah Johnson, Executive Director  
North Dakota Soybean Council

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota Soybean Council as of and for the year ended June 30, 2008, which collectively comprise the North Dakota Soybean Council's basic financial statements and have issued our report thereon dated August 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota Soybean Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Soybean Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Soybean Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the North Dakota

Soybean Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the North Dakota Soybean Council's financial statements that is more than inconsequential will not be prevented or detected by the North Dakota Soybean Council's internal control. We consider the deficiency described in the findings, recommendations, and agency response section of the report as finding 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the North Dakota Soybean Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency identified as finding 08-1 is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Soybean Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and the Soybean Promotion and Research Order (the "Order") relative to the use and investment of funds collected by the North Dakota Soybean Council and with terms described in Sections 1220.228(a) and 1220.211(j) of the Order relative to prohibited uses of funds collected by the North Dakota Soybean Council, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the North Dakota Soybean Council's Board of Directors, the Governor, and the Legislative Audit and Fiscal Review Committee and is not intended to be and should not be used by anyone other than these specified parties.

Robert R. Peterson  
State Auditor

August 19, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the North Dakota Soybean Council's annual financial report presents a discussion and analysis of the Council's financial performance during the fiscal year that ended June 30, 2008. Please read this information in conjunction with the financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the Council exceeded liabilities at fiscal year-end by \$2,371,230 (reported as net assets); 61% more than the previous year.
- Assessment revenues totaled about \$5.3 million; an increase of 41% from the previous year.
- Program expenses were about \$1.7 million; a slight increase from the previous year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Council's basic financial statements, which consist of three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also includes an optional supplementary section.

#### Entity-wide Statements

The entity-wide financial statements provide a broad view of the Council's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Council's financial position, which assist in assessing the Council's economic condition at the end of the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Council's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets are an indicator of whether the Council's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Council's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected assessments and earned but unused vacation leave).

Both statements report all activities as governmental. Governmental activities are primarily supported by assessments, grants/contributions, and miscellaneous revenue. All of the Council's services are reported under this category.

#### Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Council uses to keep track of specific sources of funding and spending for a particular purpose. The Council, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

All of the Council's services are reported in governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, the governmental fund financial statements focus on the near-term inflows and outflows of spendable resources. They also focus on the balances left at year-end that are available for future spending. Such information may be useful in evaluating whether there are more or fewer financial resources that can be spent in the near future to finance the Council's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Council has one governmental fund – a special revenue fund. This fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and the fund financial statements.

### **Supplementary Information**

Supplementary information includes the special comments requested by the Legislative Audit and Fiscal Review Committee, communication with the oversight board and findings, recommendations and client responses, if any.

## **FINANCIAL ANALYSIS**

### **Entity-wide Statements**

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. The Council's net assets totaled \$2.4 million at the end of fiscal year 2008, compared to about \$1.5 million at the end of the prior fiscal year, signifying an increase in financial position. A comparative analysis of entity-wide data for fiscal years 2008 and 2007 follows:



	June 30, 2008	June 30, 2007
Current and other assets	\$ 3,022,391	\$ 1,866,716
Capital assets, net	48,146	56,367
Total assets	<u>\$ 3,070,537</u>	<u>\$ 1,923,083</u>
Noncurrent liabilities	\$ 29,865	\$ 27,440
Current liabilities	669,442	425,983
Total liabilities	<u>\$ 699,307</u>	<u>\$ 453,423</u>
Net assets		
Invested in capital assets,		
Net of related debt	\$ 38,442	\$ 44,515
Unrestricted	2,332,788	1,425,145
Total net assets	<u>\$ 2,371,230</u>	<u>\$ 1,469,660</u>

The largest component (98% in fiscal year 2008 and 97% in fiscal year 2007) of the Council's net assets reflects unrestricted net assets, which may be used at the Council's discretion, but subject to limitations on use based on state statutes.

The condensed financial information below reflects how the Council's net assets changed between fiscal years 2008 and 2007:

Revenues:

	June 30, 2008	June 30, 2007
Program revenues		
Charges for services	\$ 27,400	\$ 22,455
Operating grants and contributions	65,581	116,211
General revenues		
Assessment revenues	5,341,151	3,778,615
Miscellaneous revenues	41,667	45,046
Total revenues	<u>\$ 5,475,799</u>	<u>\$ 3,962,327</u>

Expenses:

Program expenses		
Administration	\$ 194,373	\$ 165,740
International marketing	286,522	200,674
Consumer information	145,663	123,712
Domestic marketing	296,314	348,615
Producer communications	374,992	269,783
Research	554,040	435,547
General expenses		
Remittances to Qualified State Soybean Boards	106,627	69,157
Remittances to United Soybean Board	2,615,698	1,854,354
Total expenses	<u>\$ 4,574,229</u>	<u>\$ 3,467,582</u>

Change in net assets	<u>\$ 901,570</u>	<u>\$ 494,745</u>
Net assets - beginning	<u>\$ 1,469,660</u>	<u>\$ 974,915</u>
Net assets - ending	<u>\$ 2,371,230</u>	<u>\$ 1,469,660</u>

Governmental activities increased the Council's net assets by about \$902,000 primarily due to increased soybean assessment collections based on an increase in the price for the 2007 crop year. The soybean assessment collections represent about 97% of the Council's revenues. Approximately one-half of the assessment collections are remitted to the United Soybean Board. The largest program expenses are for research and producer communications.

#### **Fund Statements**

Since the Council has only one special revenue fund, the fund statements are not significantly different from the entity-wide statements.

#### **Budget Information**

The Council's special revenue fund has a continuing appropriation; therefore the state does not require the fund to have a budget.

#### **CAPITAL ASSETS**

At the end of fiscal year 2008, the Council had three equipment items with a cost of \$100,739 and accumulated depreciation of \$52,593. Additional information about the Council's capital assets is presented in Note 3 to the financial statements.

#### **ECONOMIC FACTORS**

The revenue for fiscal year 2009 is expected to be comparable to fiscal year 2008. This was due to additional planted acres in the 2008 crop year, but with a lower market price.

#### **CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Council's finances and to demonstrate the Council's accountability for the money it receives. Questions about this report or additional financial information should be addressed to the North Dakota Soybean Council, 1411 32<sup>nd</sup> Street S, Fargo, ND 58103.

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**STATEMENT OF NET ASSETS**  
**June 30, 2008**

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Assets

Current assets:

Cash and cash equivalents	\$ 1,123,192
Investments	1,000,000
Assessments receivable	897,116
Interest receivable	2,083
Total current assets	<u>\$ 3,022,391</u>

Noncurrent assets:

Equipment	<u>\$ 48,146</u>
Total noncurrent assets	<u>\$ 48,146</u>

Total Assets	<u>\$ 3,070,537</u>
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Liabilities

Current liabilities:

Accounts payable	\$ 112,453
Accrued payroll	23,350
Due to other state agencies	301
Due to the United Soybean Board	492,019
Due to other Qualified State Soybean Boards	37,789
Compensated absence payable	1,185
Leases payable	2,345
Total current liabilities	<u>\$ 669,442</u>

Noncurrent liabilities:

Compensated absence payable	\$ 22,506
Leases payable	7,359
Total noncurrent liabilities	<u>\$ 29,865</u>

Total liabilities	<u>\$ 699,307</u>
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Net Assets

Invested in capital assets, net of related debt	\$ 38,442
Unrestricted	<u>2,332,788</u>

Total net assets	<u>\$ 2,371,230</u>
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**STATEMENT OF ACTIVITIES**  
**For The Fiscal Year Ended June 30, 2008**

Function/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Program:</b>				
International Marketing	\$ 286,522			\$ (286,522)
Consumer Information	145,663		\$ 3,281	(142,382)
Domestic Marketing	296,314		54,766	(241,548)
Producer Communications	374,992	\$ 27,400	3,281	(344,311)
Research	554,040			(554,040)
Total Program	\$ 1,657,531	\$ 27,400	\$ 61,328	\$ (1,568,803)
Administration	\$ 194,373		4,253	(190,120)
Total	\$ 1,851,904	\$ 27,400	\$ 65,581	\$ (1,758,923)
<b>General Revenues</b>				
Assessment Revenues Collected from 1st Purchasers				\$ 5,341,151
Less:				
Assessment Revenue Remitted to Qualified State Soybean Boards				(106,627)
Assessment Revenue Remitted to United Soybean Board				(2,615,698)
Total General Revenues				\$ 2,618,826
Interest Income				\$ 39,796
Miscellaneous Revenue				1,871
Total Revenues				\$ 2,660,493
Increase in Net Assets				\$ 901,570
Net Assets, Beginning of Year				1,469,660
Net Assets, Ending				\$ 2,371,230

**STATEMENT OF ACTIVITIES**  
**For The Fiscal Year Ended June 30, 2008**

Function/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Program:</b>				
International Marketing	\$ 286,522			\$ (286,522)
Consumer Information	145,663		\$ 3,281	(142,382)
Domestic Marketing	296,314		54,766	(241,548)
Producer Communications	374,992	\$ 27,400	3,281	(344,311)
Research	554,040			(554,040)
Total Program	<u>\$ 1,657,531</u>	<u>\$ 27,400</u>	<u>\$ 61,328</u>	<u>\$ (1,568,803)</u>
Administration	\$ 194,373		4,253	(190,120)
Total	<u>\$ 1,851,904</u>	<u>\$ 27,400</u>	<u>\$ 65,581</u>	<u>\$ (1,758,923)</u>
<b>General Revenues</b>				
Assessment Revenues Collected from 1st Purchasers				\$ 5,341,151
Less:				
Assessment Revenue Remitted to Qualified State Soybean Boards				(106,627)
Assessment Revenue Remitted to United Soybean Board				(2,615,698)
Total General Revenues				<u>\$ 2,618,826</u>
Interest Income				\$ 39,796
Miscellaneous Revenue				1,871
Total Revenues				<u>\$ 2,660,493</u>
Increase in Net Assets				\$ 901,570
Net Assets, Beginning of Year				1,469,660
Net Assets, Ending				<u>\$ 2,371,230</u>

<b>BALANCE SHEET</b> <b>June 30, 2008</b>	
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Assets

Cash and cash equivalents	\$ 1,123,192
Investments	1,000,000
Assessments receivable	897,116
Interest receivable	2,083
Total assets	<u>\$ 3,022,391</u>

Liabilities and Fund Balance

Liabilities:

Accounts payable	\$ 112,453
Accrued payroll	23,350
Due to other state agencies	301
Due to the United Soybean Board	492,019
Due to Other Qualified State Soybean Boards	37,789
Total liabilities	<u>\$ 665,912</u>

Fund Balance:

Unreserved:

Undesignated	\$ 2,356,479
Total fund balance	<u>\$ 2,356,479</u>
Total liabilities and fund balance	<u>\$ 3,022,391</u>

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**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
June 30, 2008**

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Total fund balance - governmental fund	\$ 2,356,479
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital equipment used in governmental activities are not financial resources and therefore are not reported in the funds.	48,146
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Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(23,691)
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Capital leases are not due and payable in the current period and therefore are not reported in the funds.	(9,704)
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Net assets of governmental activities	<u><u>\$ 2,371,230</u></u>
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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**For The Fiscal Year Ended June 30, 2008**

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<u>Revenues</u>	<u>Governmental Fund</u>
Assessment revenues collected from 1st Purchasers	\$ 5,341,151
Less:	
Assessment revenue remitted to Qualified State Soybean Boards	(106,627)
Assessment revenue remitted to United Soybean Board	(2,615,698)
Net assessment revenues	<u>\$ 2,618,826</u>
 Grants/Contributions	 25,000
Interest income	39,796
Miscellaneous revenue	69,852
Total revenues	<u>\$ 2,753,474</u>
 <u>Expenditures</u>	
Program expenditures:	
International marketing	\$ 286,396
Consumer information	145,041
Domestic marketing	295,817
Producer communications	370,852
Research	549,996
Total program expenditures	<u>\$ 1,648,102</u>
 Administration	 192,708
Total expenditures	<u>\$ 1,840,810</u>
 Revenues over expenditures	 <u>\$ 912,664</u>
 Fund Balance, Beginning of Year	 <u>\$ 1,443,815</u>
 Fund Balance, End of Year	 <u><u>\$ 2,356,479</u></u>



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**RECONCILIATION OF THE CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
For The Fiscal Year Ended June 30, 2008**

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Revenues over expenditures - governmental fund \$ 912,664

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Depreciation expense (8,221)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Capital lease payments 2,148

Some items reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Increase in compensated absences (5,021)

Change in net assets of governmental activities \$ 901,570

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**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the North Dakota Soybean Council (hereafter Council) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Reporting Entity**

For financial reporting purposes, the Council has included all funds, and has considered all potential component units for which the Council is financially accountable, and other organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the Council's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Council to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Council.

Based upon these criteria, there are no component units to be included within the Council as a reporting entity and the Council is included within the state of North Dakota as a reporting entity.

**B. Basis of Presentation**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. The entity-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all non-fiduciary activities of the Council.

Pursuant to the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, effective for the Council's year ended June 30, 2004, the full scope of the Council's activities is considered to be governmental activity.

**C. Basis of Accounting**

The entity-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 30 days of year end. The revenues that are determined to be susceptible to accrual are soybean assessments and interest.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

Program revenues include charges to customers or applicants for goods or services and operating grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all soybean assessments.

D. Budgetary Policies and Procedures

The Council is not legally required to budget expenditures because a continuous appropriation of all monies collected is granted to the Council under Section 4-10.5-12 of the North Dakota Century Code.

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements, as encumbrance accounting is not utilized.

E. Cash and Cash Equivalents

Cash and cash equivalents for reporting purposes includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rate. This includes investments with original maturity of three months or less. Also, cash, as reported, may be under the control of the State Treasurer or by other administrative bodies as determined by law.

F. Receivables

Receivables include assessments receivable on soybeans and interest receivable on investments.

G. Capital Assets

Capital assets are stated at cost. Equipment with an original cost of \$5,000 or more and an estimated useful life in excess of one year are capitalized and reported in the government-wide financial statements.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets. The useful life for equipment is 3-20 years.

H. Compensated Absences

Annual and sick leave are a part of permanent employees' compensation as set forth in section 54-06-04 of the North Dakota Century Code. In general, accrued annual leave cannot exceed 30 days at April 30, while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement, per section 54-06-14 of the North Dakota Century

Code. Employees vest in sick leave at ten years of credible service, at which time the employer is liable for 10% of the accumulated unused sick leave. The government-wide financial statements present the cost of compensated absence as a liability. The governmental fund financial statements recognize compensated absence when the liability is incurred and payable from available expendable resources.

I. Net Assets/Fund Balance

The difference between fund assets and liabilities is "Net Assets" on the entity-wide statements and "Fund Balance" on the governmental fund statements.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

A. Deposits

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "all state funds . . . must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

At June 30, 2008 the carrying amount of deposits was \$1,123,192. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. All of the Council's deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these investments are guaranteed by the state of North Dakota (NDCC Chapter 6-09-10).

B. Investments

All investments must be short-term (one year or less), risk free (federally insured or fully collateralized), and interest bearing. At June 30, 2008, the fair value of investments was \$1,000,000. All investments were certificates of deposit insured by the U.S. government. NDCC 4-24-09 states the State Treasurer shall credit 20% of the investment income to the general fund in the state treasury as payment for services when provided without cost to the Council, the remaining 80% is credited to the soybean fund.

**NOTE 3 - CAPITAL ASSETS**

The following is a summary of capital assets for the year ended June 30, 2008:

	Balance 7/1/07	Increases	Decreases	Balance 6/30/08
<b>Capital assets, depreciable:</b>				
Equipment	\$ 100,739			\$ 100,739
Less accumulated depreciation	(44,372)	(8,221)		(52,593)
<b>Total capital assets, depreciable</b>	<b>\$ 56,367</b>	<b>(8,221)</b>		<b>\$ 48,146</b>

Depreciation expense allocated to:

Administration	\$ 1,056
International marketing	230
Consumer information	551
Domestic marketing	322
Producer communication	2,067
Research	3,995
	<u>\$ 8,221</u>

#### **NOTE 4 - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities for June 30, 2008 is presented as follows:

	Balance 7/1/07	Additions	Reductions	Balance 6/30/08	Current Portion
Leases Payable	\$ 11,852		\$ (2,148)	\$ 9,704	\$ 2,345
Compensated Absences	18,670	\$ 15,603	(20,624)	23,691	1,185
Total	<u>\$ 30,522</u>	<u>\$ 15,603</u>	<u>\$ (22,772)</u>	<u>\$ 33,395</u>	<u>\$ 3,530</u>

#### **NOTE 5 - LEASE OBLIGATIONS**

##### **A. Capital lease**

The Council has one capital lease, for a copier. Principal and interest expenditures were \$2,148 and \$959, respectively for the year ended June 30, 2008. Debt service requirements to maturity for capital lease obligations at June 30, 2008 are as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 2,345	\$ 762	\$ 3,107
2010	2,560	547	3,107
2011	2,795	312	3,107
2012	2,004	67	2,071
	<u>\$ 9,704</u>	<u>\$ 1,688</u>	<u>\$ 11,392</u>

##### **B. Operating leases**

The Council has two operating leases, one for the rent of office space, and one for a mailing system. Expenditures for operating leases were \$24,958 for the year ended June 30, 2008. Debt service requirements to maturity for operating lease obligations at June 30, 2008 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2009	\$ 24,700
2010	8,233
	<u>\$ 32,933</u>

#### **NOTE 6 - PENSION AND POST-RETIREMENT PLANS/BENEFITS**

The Council participates in the North Dakota Public Employees' Retirement System (NDPERS), administered by the state of North Dakota. The following is a brief description of the plan:

##### **A. Description of Pension Plan**

NDPERS has a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the state. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to either a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were 65 the day before death occurred, or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit, if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid; the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary, with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2% for each year of service times their final average salary. The plan permits early retirement at ages 55-64, with three or more years of service.

##### **B. Pension Plan Funding Policy**

NDPERS is funded by employee contributions (set by statute) of 4% of regular compensation. During the 1983-1985 biennium the state implemented the employer pickup provision of the IRS code whereby a portion or all of the required employee contributions are made by the employer. The state is paying the full employee contribution. Employer contributions of 4.12% of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method.

### C. State Group Health Plan

Section 54-52.1-03.2 of the North Dakota Century Code establishes a Retiree Health Benefits Fund to provide members who receive retirement benefits from the Public Employees Retirement System a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The employer contribution for the Public Employees Retirement System is set by statute on an actuarially determined basis (projected unit actuarial cost method) at 1% of covered compensation. Employees participating in the retirement plan, as part-time/temporary members are required to contribute 1% of their covered compensation to the Retiree Health Benefits Fund.

The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The Council's required and actual contributions to NDPERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$19,379, \$18,168, and \$19,460 respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to: NDPERS, 400 East Broadway, Suite 505, PO Box 1657, Bismarck, ND 58502.

### **NOTE 7 - RISK MANAGEMENT**

The Council is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state and its agencies' employees and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Council also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover for loss to business personal property, up to a limit of \$100,000. Replacement cost coverage is provided by estimating the replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$1,000,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Council participates in the North Dakota Worker's Compensation Bureau, an enterprise fund of the state of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior years and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

#### **NOTE 8 - RELATED PARTIES**

As noted in note one of these financial statements, the Council is an agency of the state of North Dakota, as such; other agencies of the state are related parties. The Council made payments to North Dakota State University, Northern Crops Institute, and the University of North Dakota for \$415,879 during fiscal year 2008. The Council also has a particularly close working relationship with the North Dakota Soybean Growers Association and made payments to them of \$80,839 during fiscal year 2008. Effective September 6, 1996, the Council as Lessor leased a soybean combine (with a cost of \$80,621) to North Dakota State University as Lessee for one year. The lease is automatically extended for one year periods unless either party terminates the lease agreement. The lease payments are zero. The combine is to be used only within the soybean breeding program, with the Lessee providing insurance coverage and storage.

#### **NOTE 9 - COMMITMENTS**

At June 30, 2008, the Council had approved research contracts with North Dakota State University and the University of North Dakota for \$727,194.



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## RESPONSES TO LAFRC AUDIT QUESTIONS

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. *What type of opinion was issued on the financial statements?*

Unqualified.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

3. *Was internal control adequate and functioning effectively?*

No. The Council does not have an adequate control/fraud risk assessment process. For additional commentary see the Findings, Recommendations, and Agency's Response section of the report (page 28).

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

There were no findings in the prior audit report.

6. *Was a management letter issued?*

No.

August 19, 2008

Legislative Audit and Fiscal Review Committee

North Dakota Soybean Council Board of Directors

We have audited the financial statements of the governmental activities and major fund of the North Dakota Soybean Council for the year ended June 30, 2008, and have issued our report thereon dated August 19, 2008. Professional standards require that we provide you with the following information related to our audit.

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota Soybean Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of capital assets is based on the straight line method of calculating depreciation. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements identified during this audit.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated August 19, 2008. Professional standards require that we provide you with a list of those representations. See the Management Representations section of this report on page 25 for a list of representations made by management.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Legislative Audit and Fiscal Review Committee and the North Dakota Soybean Council Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

John Grettum, CPA  
Audit Manager

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## MANAGEMENT REPRESENTATIONS

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1. The financial statements are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available all—
  - a. Financial records and related data.
  - b. Minutes of the meetings of the Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
8. We have a process to track the status of audit findings and recommendations.
9. We have identified any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
10. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
11. The North Dakota Soybean Council has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
12. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the North Dakota Soybean Council is contingently liable.
  - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
13. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of

financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

14. There are no—
  - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
  - b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, and we have not consulted a lawyer concerning litigation, claims, or assessments.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
  - d. Reservations or designation of net assets that were not properly authorized and approved.
15. As part of the audit, the North Dakota State Auditor's office prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee those services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and attached adjusting entries.
16. The North Dakota Soybean Council has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
17. The North Dakota Soybean Council has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
19. The financial statements properly classify all funds and activities.
20. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
21. Net asset components (invested in capital assets; net of related debt; restricted; and unrestricted), and fund balance reserves and designations are properly classified and, if applicable, approved.
22. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
23. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
24. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
25. Special and extraordinary items are appropriately classified and reported.

26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
28. We have disclosed all contracts or other agreements with service organizations, and all communications from the service organizations relating to noncompliance at the service organizations.

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## FINDINGS, RECOMMENDATIONS, AND AGENCY RESPONSE

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### CONTROL/FRAUD RISK ASSESSMENT (FINDING 08-1)

The Soybean Council does not have a system in place to identify control weaknesses and possible instances of fraud or fraudulent activities in the Council's financial and operational areas. This would include the documentation of the necessary control activities to ensure significant control weaknesses (including fraud exposure) are identified and mitigated.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance dictates that a Control Risk Assessment including a Fraud Risk Assessment program be established and practiced to identify risks within the department's control environment including fraudulent type activities, when special circumstances arise, when changing operating environments, and for restructuring.

#### **Recommendation:**

We recommend that the North Dakota Soybean Council, with the assistance of the Office of Management and Budget:

- Establish and perform a control risk assessment including a fraud risk assessment on a recurring basis; and
- Design and document the necessary control activities to ensure that each of the significant control risks and fraud exposures identified during the risk assessment process has been adequately mitigated.

#### **Agency Response:**

*Agree. We will work with OMB to establish and perform a control risk assessment and design and document necessary control activities.*